

## Pensions CIV Sectoral Joint Committee

Item no: 13

## Investment Advisory Committee Update

**Report by:** Ian Williams      **Job title:** Chair of Investment Advisory Committee

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**Summary:** The Investment Advisory Committee (IAC) continues to work closely with the London CIV on a wide range of investment related projects.

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**Recommendations:** The committee is recommended to note the contents of this report;

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## **Introduction**

1. The Investment Advisory Committee (IAC) was formed in September 2015 with the remit to:
  - i. To support the Joint Committee in the investment decision making process
  - ii. To liaise with the Fund Operator of the CIV in defining Shareholders' investment needs.
2. Since the last Joint Committee meeting the IAC has formally met twice in April and June. The annual nominations for membership of the IAC were sought in June with those coming forward being provided to the June IAC meeting. This showed that interest in the IAC from LLAs remained strong with 24 individuals either nominating themselves (SLT representatives) or officers being nominated with representation from 25 LLAs. Subsequently a further 2 nominations have been received. All those coming forward have been accepted for the Committee to help ensure that LLA's who want to be engaged with LCIV development are afforded the opportunity to do so. Questions were raised at the June Committee as to why not all LLAs wanted representation, however is recognised that it can be quite a time commitment and authorities are often resource constrained.
3. Members of the IAC have also been asked to confirm they are happy to remain on the various working groups and additional members are being sought for the infrastructure working group in recognition that this work is lively to increase over the coming months.
4. Key areas for discussion for the meetings have covered the working groups which feed into the IAC:

## **Global Equities**

5. Whilst the working group hasn't met, the IAC have been provided with regular updates on the progress of the opening of the new global equity sub-funds. In addition the IAC were supportive of running the global equity information day (May) and reviewed the feedback from that event at its meeting in June.
6. The IAC have been keen to work with LCIV to consider the next phase of global equity fund launches which are scheduled for December. Whilst recognising that the depth and breadth of equity offerings will have increased considerably over the year from 2 at the start of 2017 to 8 by the end of September, this does comprise UK, Emerging Markets and Sustainable equities, so it was agreed that further choices would be required to meet LLA requirements, early indications were for low volatility, low carbon and core.
7. The IAC were keen to understand where demand exceeded capacity in some of the global equity sub-funds, how the subscriptions from LLAs would be managed. At the June meeting a draft allocations policy was tabled, which set out the process for allocating subscriptions, which most members of the IAC were agreed was a sensible approach to the issue.

## **Fixed Income / Cashflow Products**

8. The Fixed Income Working Group met twice during the period since the last Joint Committee meeting, in April and May. The Group has been working closely with LCIV to

refine requirements and to investigate options including meeting with a range of managers who provided training and product outlines.

9. The IAC were keen to emphasise that LLA requirements were for products to be launched in 2017 i.e. before end December as far as possible given that many Pension Funds had either completed or were due to do so by mid summer, their asset allocation strategies indicating significant shifts into the fixed income space over the coming months. This has also been borne out by the Investment Strategy Statement reviews which LICV has been trying to capture. At a high level this would indicate in excess of £1.2bn due to be allocated to fixed income over the coming months.
10. LCIV officers confirmed that they were aware of this increased focus on fixed income and were drawing up a timeline which would see sub-funds opening in December, although acknowledged that this would need considerable input from the Fixed Income Working Group. LCIV confirmed that a lot of background research had already taken place and that an appointment of a fixed income manager was imminent. LCIV were keen to ensure that they were in a position of meeting LLA requirements in this space.

### **Stewardship and ESG**

11. The IAC was updated on the Member Stewardship Working Group who were keen to see the survey on low carbon broadened out to include all Funds and Councillors. It was also noted that low carbon funds were likely to see reasonable demand from Funds who had made commitments to Divest or move to lower carbon targets. It was also noted that the date for the Low Carbon workshop was mid-July, but that this would need to be moved due a number of senior officers attending the CIPFA Conference, meaning that it was likely to be moved to the autumn.
12. The other area of note was that the Scheme Advisory Board was currently considering issuing Responsible Investment Guidance for Administering Authorities with a first draft having been considered at a meeting in May. It was noted that LCIV officers were working closely with officers from other Pools to assist in considering the draft guidance and were feeding in suggestions for changes.

### **Infrastructure / Housing**

13. Early indications from reviewing LLA Fund changing strategic needs show an increasing demand for infrastructure opportunities on LCIV platform, hence looking to members of the IAC to join an Infrastructure Working Group and to consider whether the timeframe for delivery of these products needed to be brought forward. Work on infrastructure including a briefing paper from Hermes had previously been circulated to the IAC. It was noted that demand for social housing at this time was limited in terms of investment requirements.

### **Additional Items**

14. **MiFID II** – The IAC have been kept updated on the progress of discussions between the Cross Pools Group, LGA and the FCA and were hopeful of some of the key problem areas being resolved satisfactorily for both the LPGS and treasury functions of LLAs. It was likely that Funds will still be required to opt up to professional status, but that the process should be simpler than at first appeared. As we go to press with the Committee papers, the FCA has just issued an announcement on the review. A fuller update will be provided at Committee, but the initial view is that the outcome is certainly positive in

terms of the opt up process, being able to assess Funds on their collective rather than their individual role. In addition, 'rules will add a fourth criterion that the client is subject to the LGPS Regulation for their pension administration business', recognising the role of Administering Authorities in managing Local Authority Pension Funds.

15. **Reporting and Transparency** – The working group on this area has not met since March due to LLA officers being involved in closing the Pension Fund accounts at a local level. A meeting was due to take place later in June and would be looking at the new client portal to carry out UAT (user acceptance testing) before a soft launch over the summer.
16. **Quarterly CIV Update** – The second quarterly update for SLT and pension officers was reviewed by the IAC and suggestions incorporated. This is being issued on a quarterly basis by myself as Chair of the IAC and LCIV CEO, feedback to the updates remains positive and a good way of communicating with SLT and officers who have less involvement with LCIV. It was noted that in some instances this was also being copied to Pension Committees for information. The next update is currently being worked on and will be issued later in July.
17. **Academies** – It was noted a PWC report on academies had been received by the Scheme Advisory Board and that further discussions would be held, but due to the complexities of academy relationships in the LGPS, it was likely to be some time before a resolution would be achieved.
18. **Governance Review of the London CIV** –Gerald Almeroth and Ian Williams sitting on the Governance Review Steering Committee, it was noted that the tender for appointing a provider was out and that submissions were due in June and that these would be reviewed by the Steering Committee to make an appointment with a view to the review taking place during the summer and reporting in the autumn.
19. **National Frameworks** – The IAC were provided with a presentation from the National Framework Officer on the current and future procurement frameworks that would be available and in particular work that was underway on the transition manager framework, of which LCIV were a founder member.
20. **Future work** – The emphasis over the coming months will be working closely with LCIV on the procurement of managers in the fixed income area, refining the second phase equity managers and also commencing work on infrastructure. Further work is also likely to focus on the reporting and transparency agenda as the number of sub-funds increases and also in line with the increased transparency requirements following agreement on a cost transparency template from the Scheme Advisory Board in conjunction with the Investment Association. Consideration will also need to be given to the responsible investment guidance once issued to see how this can be developed in conjunction with LCIV to provide additional support and training opportunities.

## **Recommendations**

21. The committee is recommended to note the contents of this report

## **Financial implications**

22. There are no financial implications for London Councils

**Legal implications**

23. There are no legal implications for London Councils.

**Equalities implications**

24. There are no equalities implications for London Councils